

RatingsDirect®

Summary:

Essex, Connecticut; General Obligation

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Credit Profile

US\$6.0 mil GO bnds ser 2017 due 09/15/2037

Long Term Rating

AA+/Stable

New

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating and stable outlook to Essex, Conn.'s series 2017 general obligation (GO) bonds.

The town's full faith and credit pledge secures the bonds. We understand bond proceeds will be used to finance components of the town's 2014 capital program, including replacement and repair of the Walnut Street Bridge and Ivory Street Bridge, various building improvements, and the purchase of a fire vehicle.

The rating reflects the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Strong budgetary flexibility, with an available fund balance in fiscal 2016 of 14.6% of operating expenditures;
- Very strong liquidity, with total government available cash at 27.4% of total governmental fund expenditures and 6.9x governmental debt service;
- Very strong debt and contingent liability position, with debt service carrying charges at 4% of expenditures and net direct debt that is 49.4% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 67.5% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Essex's economy very strong. The town, with an estimated population of 6,461, is located in Middlesex County in the Hartford-West Hartford-East Hartford MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 190% of the national level and per capita market value of \$230,990. Overall, the town's market value was stable over the past year at \$1.5 billion in 2018. The county unemployment rate was 4.4% in 2016.

Essex is located just off Interstate 95, via the Chester Bowles Highway, and directly on the banks of the Connecticut River. The town's population has remained generally flat since 2000. Major local employers include Essex Meadows Lifecare, Underwater Construction, the Griswold Inn, and a number of manufacturers. The town's unemployment rates have historically been below state and national averages.

Market values have increased by just under a half percentage point in each of the last two years, and management notes continued residential construction and commercial development, with the latter benefiting from the town's role as a tourist destination. Building permits, particularly for commercial/industrial uses have ticked up in recent years. Local attractions include the Essex Steam Train and Riverboat, the Connecticut River Museum, and Ivoryton Playhouse. We anticipate the town's economy will remain very strong over the near term.

Strong management

We view the town's management as strong, with "good" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Management has a record for budgeting conservatively for revenues and expenditures and maintains access to state and trend data in the preparation of its estimates. The town's director of finance provides a monthly status report to the Board of Finance, which is also available to the Board of Selectman for review. The board maintains the ability to adjust and amend the budget during the year when necessary. Essex undertakes a formal five-year capital plan on a rolling basis, which includes project descriptions and uses of funds. The town also produces an annual financial forecast covering the current year and the next two years as a planning document.

The formal fund balance policy targets unassigned reserves at 10%-14% of operating expenditures and outlines the process for set-asides and use of fund balance. The town does not maintain a formal debt management or investment policy but it does follow state guidelines for both, and its investments are conservative in nature.

Strong budgetary performance

Essex's budgetary performance is strong in our opinion. The town had operating surpluses of 2% of expenditures in the general fund and 4.2% across all governmental funds in fiscal 2016. Our analysis adjusts for recurring transfers out of the general fund as well as capital spending paid for with bond proceeds. Property taxes make up 95% of revenue while state aid is a minor portion at less than 2%. Despite continued pressures at the state level that has affected funding for local governments, we do not believe Essex's budget will be pressured if state funding were further reduced given the town's very limited reliance on this revenue source.

Despite a budgeted appropriation of \$478,000 in fund balance for fiscal 2016, the town was able to replenish this amount and operate to a surplus. Management attributes the result to better-than-budgeted revenues for taxes and permit fees as well as savings related to public safety costs.

Officials elected to raise the mill rate by 2.4% in fiscal 2017 with an appropriation of \$115,000 in fund balance, in anticipation of 2.1% increase in spending. However, unaudited results are expected to show a surplus for the fiscal 2017. We understand the surplus is likely to exceed \$500,000, evenly attributable to better-than-projected revenues and cost savings and continuing a recent trend, particularly with regard to property taxes and building permits, which we believe are budgeted for conservatively.

The town's 2018 budget includes an increase of about 1.4%. Essex once again elected to increase its mill rate by 1.8%. While the budget includes an appropriation of \$175,000 in fund balance, we believe the town will likely be able to replenish that amount based on a recent trend. We note the budget reflects a decrease in the amount budgeted for

State Education Grants and the state's Municipal Revenue Sharing program. We anticipate the town's budgetary performance will remain strong over the near term.

Strong budgetary flexibility

Essex's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2016 of 14.6% of operating expenditures, or \$3.5 million.

Given our expectation for continued strong budgetary performance and the town's fund balance target of 10%-14%--allowing for some use of fund balance for capital investment once the target is met--we believe reserves will remain strong over the near term. We also note the town has an additional \$1.4 million in sinking fund balance for various capital items that may be made available for operations upon approval by a town meeting.

Very strong liquidity

In our opinion, Essex's liquidity is very strong, with total government available cash at 27.4% of total governmental fund expenditures and 6.9x governmental debt service in 2016. In our view, the town has satisfactory access to external liquidity if necessary.

The town holds most funds as cash balances although it has expanded its use of certificates of deposit in recent years, and we consider these holdings liquid in nature and not aggressive. The town does not have any privately placed or variable-rate debt which may result in an accelerated payment of debt service. In our view, Essex has strong access to external liquidity given that it has regularly tapped the capital markets over the past 15 years. We do not expect to change our view of the town's liquidity position over the near term.

Very strong debt and contingent liability profile

In our view, Essex's debt and contingent liability profile is very strong. Total governmental fund debt service is 4% of total governmental fund expenditures, and net direct debt is 49.4% of total governmental fund revenue. Overall net debt is low at 1.1% of market value, and approximately 67.5% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

The town does not have additional plans to issue debt over the next two years and we expect a portion of existing principal to be amortized over the same period. As such, we do not anticipate changing our view of the town's debt profile over the near term. However, we note that our view of the town's debt profile could further weaken should future debt issuances cause the town's 10-year amortization schedule to fall below 65%

Essex's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 2.1% of total governmental fund expenditures in 2016. The town made 100% of its annual required pension contribution in 2016.

The town administers three pension plans--for town, police, and volunteer fire employees. The accrued liability and funded ratios as of June 30, 2017 (unaudited) were:

- Town: \$4.47 million (75%)
- Police: \$1.82 million (44.8%)
- Volunteer fire: \$1.46 million (64.4%)

In light to the plans' relatively low funding, particularly the police plan, the town has made supplemental contributions. We understand management will request a portion of its anticipated surplus to be used for this purpose going forward until funded ratios have improved. Despite relatively low funding levels, we note that these liabilities are manageable in terms of their nominal amounts and relative to their share of the budget and tax base.

The town administers two OPEB plans, one for town employees and one for teachers; the unfunded actuarial accrued liability of these plans was about \$524,000 and \$1.44 million, respectively, at the end of fiscal 2016. The town funds these costs on a pay-as-you-go basis and contributed about 75% of its annual OPEB cost in its latest audited year. We note OPEB benefits are limited to retired employees with a combined score of 90 (age plus years of service). No benefits are extended to these retirees' spouses or other family members.

Strong institutional framework

The institutional framework score for Connecticut municipalities is strong.

Outlook

The stable outlook reflects our view of the town's very strong economy and liquidity, coupled with continued strong performance in recent years, which has supported strong budgetary flexibility. We do not anticipate raising or lowering the rating in the next two years.

Upside scenario

If the town were to increase and maintain available reserves at very strong levels while experiencing steady, moderate improvement in its economic indicators and formalizing additional management policies, holding all other factors equal, we could raise the rating.

Downside scenario

If the town were to experience weak or very weak budgetary performance, requiring the use of reserves to manage to balance for a sustained period of time, we could lower the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

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